

INFORMATION CENTRE

Commodore
Business
Machines
ANNUAL REPORT
1971



Commodore Business Machines (Canada) Limited

Board of Directors

Irving Gould

Toronto, Ontario

Jack Tramiel

Watsonville, Calif.

Thomas McGourty

Aptos, Calif.

David M. Perlmutter, C.A.

Toronto, Ontario

Henry B. Sussman

Toronto, Ontario

Officers

Irving Gould

Chairman of the Board

Jack Tramiel

President

Thomas McGourty

Vice-President, Manufacturing

Robert S. Weiss, C.A.

Secretary-Treasurer

Frederick S. Draper

Assistant Secretary

Transfer Agent and Registrar

Canada Permanent Trust Company,
Toronto, Montreal

Auditors

Arthur Andersen & Co., Toronto, Ontario

Counsel

Davies, Ward & Beck, Toronto, Ontario

Shares Listed

Canadian Stock Exchange, Montreal

Head Office

946 Warden Avenue, Scarborough, Ontario

Other Offices

Commodore Business Machines, Inc.

390 Reed Street,

Santa Clara, California 95050

31 East 32nd Street,

New York, New York 10016

814 Busse Highway

Park Ridge, Illinois 60068

Commodore International Limited,

P.O. Box 4852, Bolam House,

Nassau, Bahamas

CBM Business Machines Limited,

Princes House, Ste. 209

190 Picadilly,

London W. 1, England

Commodore Buromaschinen GmbH

3000 Hannover 17

Am Schafbrinke 62c

West Germany

Commodore Japan Limited

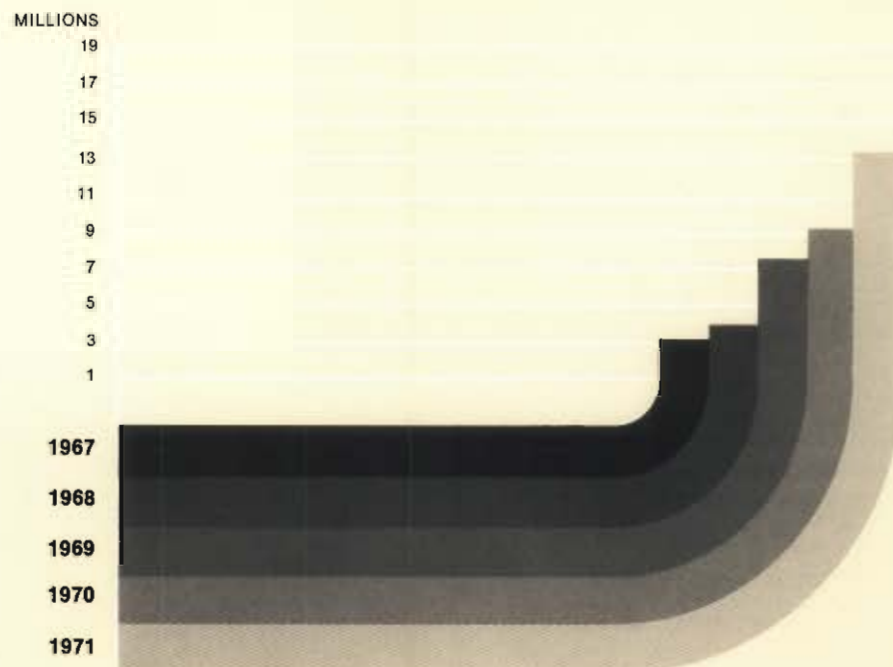
Ste. 706, Hayama Bldg.

3-14 Hirro 1 - Chome,

Shibuya-ku, Tokyo, Japan

Financial Highlights

Consolidated Comparison of Corporate Sales



Financial Highlights

(United States Currency)

	1971	1970	1969	1968	1967
SALES	\$13,494,272	\$9,418,321	\$7,477,426	\$4,139,886	\$3,084,678
EARNINGS (before extraordinary items)	\$ (310,901)	\$ 646,412	\$ 467,476	\$ 130,750	\$ (147,077)
EARNINGS PER SHARE (before extraordinary items)	\$ (.26)	\$.54	\$.41	\$.12	\$ (.14)
SHARES OUTSTANDING	1,215,615 ⁵ / ₂₀	1,197,487 ⁵ / ₂₀	1,146,241 ⁵ / ₂₀	1,094,987 ⁵ / ₂₀	1,042,681 ⁵ / ₂₀
WORKING CAPITAL	\$ 3,013,625	\$3,379,449	\$2,480,096	\$1,725,175	\$1,350,343
SHAREHOLDERS' EQUITY	\$ 3,315,327	\$3,613,362	\$2,785,036	\$1,962,457	\$1,661,616

Message to our Shareholders

To The Shareholders:

The 1971 fiscal year has been a year of transition, as well as a year of growth and progress, for Commodore. It has been a year of great technological innovation within the industry, and Commodore, anticipating these changes as outlined in last year's Annual Report, has taken bold new steps to maintain a position of leadership. We have pioneered the introduction of new low-priced products and set the stage for opening new markets. Our efforts have forced dramatic changes in product concepts and marketing strategies in the entire calculator industry.

These efforts were not undertaken without incurring substantial research and development and marketing start-up costs during the year, but such action has enabled your Company to resume profitable operations during the fourth quarter of the 1971 fiscal year. At the same time, as a result of the changes that we, ourselves, were creating within the market-place, we felt it appropriate to make certain corporate decisions to write down our older inventories by over \$200,000, and to take additional reserves against receivables of approximately \$250,000.

At the same time as we were effecting a 29% reduction in our year-end inventories, our sales for the 1971 fiscal year reached \$13,494,272, a 43% increase over the previous twelve-month period. The loss for the year, before extraordinary items, was \$310,901 (26c per share) compared with a profit in the 1970 fiscal year, before extraordinary items, of \$646,412 (54c per share). Extraordinary charges in the current year amounted to \$16,033 (1c per share), compared with \$52,230 (4c per share) in the 1970 fiscal period.

Once more, our emphasis on technology enabled Commodore to be first with the introduction of a full performance electronic calculator at a price below the magic \$200

barrier. Our new Model C-108 placed the Commodore name before vast mass merchandising audiences, as it was unanimously accepted by major consumer outlets around the globe. Never before has any calculator been able to meet the standards and price requirements of the retail giants.

In North America alone, our current list of customers reads like the "Who's Who Of Retailing". Within a very short time, many millions of people in the United States and Canada have been exposed to advertisements by retailers featuring Commodore products.

In continental Europe and the United Kingdom, the Model C-108 met with a comparable reception and is today being marketed by the largest department store outlets in these countries.

Enclosed with this report are the results for the quarter ended September 30, 1971. These figures are a direct result of the endeavors of your company during fiscal 1971, and reveal the largest quarterly increase in sales and profits ever experienced by Commodore. Based upon this initial success, we are confident that the year 1972 will be one of unparalleled growth and profitability.

New Products

Commodore's emphasis on research and development has resulted in the manufacture of new American-made calculators now being introduced at major trade fairs throughout the world. A hand-sized portable electronic calculator, Model C-110, was recently exhibited at the British Efficiency Exposition in London. At the Business Equipment Manufacturers' Exhibition (BEMA), visitors were the first to see the Commodore Minuteman 1.

As the year progresses, other new American-made calculators will join the family of Commodore products. On November 15, 1971, the latest calculator in our successful desk top series, Model C-112 will make its debut in Canada at the Canadian National Business Show in Montreal.

Corporate Development

The need to know, to pioneer and develop in the area of electronic technology continues to be one of the most important facets of our total corporate effort. Since the end of the 1971 fiscal year, we have formed Optimized Technology, Inc. This subsidiary, located in Santa Clara, California, is staffed by some of the finest electronic engineers in our industry. Through Optimized Technology we will continue to maintain our leadership in the development of a broad range of equipment to satisfy the needs of almost every business and scientific community.

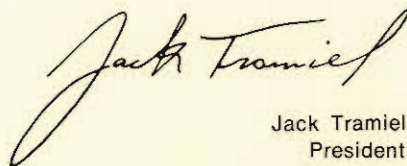
Growth within the Commodore operation, itself, has continued at a healthy pace. Our West German Company, Commodore Buromaschinen GmbH, has become a prominent factor in the wealthiest and most economically progressive country in the Common Market. Through the good offices of the Japanese Ministry of Foreign Trade (MITI), Commodore was permitted to establish its own subsidiary: Commodore Japan Limited. For the first time, we are in a position to market our products in Japan.

Outlook

Our program of growth during the 1971 fiscal year has been extensive. We have placed

emphasis upon the development of superior equipment and, at the same time, extended our sales influence throughout the world. Our product and marketing flexibility has enabled us to capitalize upon the favorable manufacturing conditions that exist in the United States. Until now, almost 90% of all calculators sold in North America have been imported. For this reason we expect to achieve some degree of recognition for the United States as a manufacturer and exporter of electronic calculating machines.

To achieve these goals for the coming year we look to our sales team, which has proven its versatility to swiftly increase its scope of operation to meet our broadening channels of distribution; and to our engineers, administrative staffs, distributors, retailers and suppliers. These people are Commodore. To each of them, I wish to express my sincere appreciation on behalf of my fellow directors, for their continued confidence and support in our company and its products.



Jack Tramiel
President

November 5, 1971

The Commodore Parade of New Products for 1971-1972 Begins Now



Commodore Minuteman 1
Personal Portable
Electronic Calculator

Commodore Business Machines (Canada) Limited

AND ITS WHOLLY-OWNED SUBSIDIARIES

	1971	1970
CURRENT ASSETS:		
Cash	\$1,119,568	\$ 31,289
Short-term deposits	465,375	568,467
Receivables		
Trade (\$2,785,166 pledged)	3,747,040	3,152,531
Notes	—	359,831
Other	92,542	338,247
Income taxes recoverable (Note 3)	181,000	160,000
Inventories, principally finished goods, at the lower of cost (first-in, first-out) or net realizable value (\$1,067,835 pledged)	2,275,302	3,201,070
Prepaid expenses	129,879	87,226
 Total current assets	 <u>\$8,010,706</u>	 <u>\$7,898,661</u>
 PLANT AND EQUIPMENT, at cost (Note 5)	 \$ 493,295	 \$ 428,841
Less—accumulated depreciation and amortization	<u>283,084</u>	<u>256,223</u>
	<u>\$ 210,211</u>	<u>\$ 172,618</u>
 OTHER ASSETS:		
Investment in affiliated company (Note 2)	\$ 50,000	\$ 61,294
Deferred development costs of new division (Note 4)	41,490	—
Other manufacturing rights, development costs, patents, trademarks, goodwill	<u>1</u>	<u>1</u>
	<u>\$ 91,491</u>	<u>\$ 61,295</u>
	<u><u>\$8,312,408</u></u>	<u><u>\$8,132,574</u></u>

Assets

Approved on behalf of the Board:

Irving Gould, Director

Jack Tramiel, Director



COMMODORE, SANTA CLARA, CALIFORNIA

Consolidated Balance Sheet—June 30, 1971

(Expressed in United States currency with comparative figures for the prior year)

Liabilities

	<u>1971</u>	<u>1970</u>
CURRENT LIABILITIES:		
Advances from finance company and bank (secured by certain receivables and inventories)	\$1,835,994	\$ 766,722
Accounts payable & accrued liabilities	3,161,087	3,738,990
Income taxes payable	—	13,500
Total current liabilities	<u>\$4,997,081</u>	<u>\$4,519,212</u>
SHAREHOLDERS' EQUITY:		
Capital Stock—		
Preference		
Authorized 100,000 redeemable, 6% cumulative shares of \$10 par value; none issued		
Common		
Authorized 3,000,000 shares of no par value; issued 1,220,386 5/20 in 1971 & 1,215,076 5/20 in 1970 (Note 6)	\$1,784,983	\$1,756,084
Surplus—		
Retained earnings	\$1,303,564	\$1,630,498
Contributed surplus—no change during the year	226,780	226,780
	<u>\$1,530,344</u>	<u>\$1,857,278</u>
	<u>\$3,315,327</u>	<u>\$3,613,362</u>
	<u>\$8,312,408</u>	<u>\$8,132,574</u>

The accompanying notes to financial statements are an integral part of this statement.

Commodore Business Machines (Canada) Limited

AND ITS WHOLLY-OWNED SUBSIDIARIES

Consolidated Statement

FOR THE YEAR ENDED JUNE 30, 1971

(Expressed in United States currency with comparative figures for the prior year)

Income

	1971	1970
NET SALES	\$13,494,272	\$9,418,321
COST OF GOODS SOLD	10,551,378	6,518,657
Gross Profit	\$ 2,942,894	\$2,899,664
OPERATING EXPENSES:		
Selling	\$ 2,033,373	\$1,145,957
General and Administrative	844,382	855,627
Interest and Financial	389,540	256,206
	\$ 3,267,295	\$2,257,790
Income (loss) from operations before income taxes	\$ (324,401)	\$ 641,874
INCOME TAX RECOVERY (Note 3)	13,500	4,538
Income (loss) for the year before extraordinary credits (charges)	\$ (310,901)	\$ 646,412
EXTRAORDINARY CREDITS (CHARGES):		
Gain on foreign exchange	\$ 35,836	\$ 48,898
Write-down of investment in affiliated company (Note 2)	(51,869)	(62,500)
Other	—	(38,628)
	\$ (16,033)	\$ (52,230)
Net income (loss) for the year	\$ (326,934)	\$ 594,182
EARNINGS PER SHARE (Note 7):		
Income (loss) for the year before extraordinary credits (charges)	\$ (.26)	\$.54
Net income (loss) for the year	\$ (.27)	\$.50

The accompanying notes to financial statements are an integral part of this statement.



COMMODORE, TORONTO, ONTARIO

Retained Earnings

Source and Application of Funds



Commodore Business Machines (Canada) Limited

AND ITS WHOLLY-OWNED SUBSIDIARIES

Consolidated Statement

FOR THE YEAR ENDED JUNE 30, 1971

(Expressed in United States currency with comparative figures for the prior year)

	1971	1970
BALANCE, BEGINNING OF YEAR:		
As previously reported	\$1,630,498	\$ 972,216
Adjustment relating to prior years' taxes	—	64,100
As adjusted	\$1,630,498	\$1,036,316
NET INCOME (LOSS) FOR THE YEAR	(326,934)	594,182
BALANCE, END OF YEAR	<u>\$1,303,564</u>	<u>\$1,630,498</u>

Consolidated Statement

FOR THE YEAR ENDED JUNE 30, 1971

(Expressed in United States currency with comparative figures for the prior year)

	1971	1970
WORKING CAPITAL, BEGINNING OF YEAR	\$3,379,449	\$2,480,096
SOURCE OF FUNDS:		
From Operations—		
Net income for the year	\$ —	\$ 594,182
Depreciation and amortization		78,761
Write-down of investment in affiliated company (Note 2)		62,500
	\$ —	\$ 735,443
Sale of common stock for cash pursuant to exercise of options and warrants	28,899	234,144
	\$ 28,899	\$ 969,587
APPLICATION OF FUNDS:		
To Operations—		
Net loss for the year	\$ 326,934	\$ —
Depreciation and amortization	(26,861)	
Write-down of investment in affiliated company (Note 2)	(51,869)	
	\$ 248,204	\$ —
Investment in affiliated company (Note 2)	\$ 40,575	23,794
Purchase of plant and equipment	64,454	46,440
Development costs of new division (Note 4)	41,490	—
	\$ 394,723	\$ 70,234
Increase (decrease) in working capital	\$ (365,824)	\$ 899,353
WORKING CAPITAL, END OF YEAR	<u>\$3,013,625</u>	<u>\$3,379,449</u>

The accompanying notes to financial statements are an integral part of these statements.

Commodore Business Machines (Canada) Limited

AND ITS WHOLLY-OWNED SUBSIDIARIES

Notes to Financial Statements—June 30, 1971

1. PRINCIPLES OF CONSOLIDATION

The Company's financial statements are consolidated as of June 30, 1971, with those of all wholly-owned subsidiaries. The method of accounting for the Company's interest in the 50% owned affiliated company is described in Note 2.

The Company's financial statements are expressed in United States currency. Current assets and current liabilities have been translated, where necessary, at year-end rates of exchange, and all other assets and liabilities have been translated at historical rates. Income, costs and expenses were translated at average rates prevailing during the year.

2. INVESTMENT IN AFFILIATED COMPANY

The Company's investment in the 50% owned affiliate, Time Research and Development Corp., is comprised of:

Shares at cost	\$100,000
Advances (including \$40,575 in fiscal 1971)	<u>64,369</u>
	\$164,369
Write-down to estimated net realizable value (including \$51,869 in fiscal 1971)	<u>114,369</u>
	<u>\$ 50,000</u>

3. INCOME TAXES RECOVERABLE

(i) United States—

The Company's U.S. subsidiary previously filed claims for refund of \$283,995 of income taxes paid for fiscal years 1962 to 1964. These claims arose from the carry-back of losses incurred during fiscal years 1965 to 1967. The Internal Revenue Service contested the claims for refund and proposed substantial disallowances for fiscal years 1963 to 1965. The Company did not agree with the position of

the Internal Revenue Service and contested the disallowances. During 1968, the claim receivable balance was reduced by \$136,995, the estimated effect of the proposed disallowances. Certain items were settled in the Company's favour during 1970, and, as a result, a retroactive adjustment of \$64,100 was made to retained earnings as of June 30, 1968.

The Company's U.S. tax attorney is of the opinion that the Company will prevail on a substantial portion of the remaining contested disallowance. However, because of the contingency involved, the Company intends to record additional adjustments only as final settlements are reached.

(ii) Canada—

As a result of operating losses incurred by the Canadian Company in fiscal 1971, the Company will recover taxes paid in fiscal 1970 of approximately \$13,500.

4. DEFERRED DEVELOPMENT COSTS OF NEW DIVISION

During fiscal 1971, the Company formed a new division which will be involved in the development, manufacture and sale of educational devices and materials. Development costs incurred of \$41,490 were deferred and reflected on the balance sheet as of June 30, 1971.

5. LEASE COMMITMENTS

At June 30, 1971, virtually all of the premises utilized by the Company and its subsidiaries were occupied under long-term leases which expire at various dates to April, 1984. Aggregate rental commitments remaining under these lease contracts were approximately \$1,159,000 at June 30, 1971, including \$116,000 within one year.

6. CAPITAL STOCK OPTIONS

The following shares have been reserved:

(a) For the exercise of share purchase warrants which entitle the holders thereof to purchase fully-paid, non-assessable common shares at the exercise price on or before the date at which the warrants become void:

Series	Void After	Warrants Issued	Exercise Price \$Can.	Warrants Out-standing	Shares Reserved
"A"	Nov. 1, 1974	200,000	\$4.50	195,875	
"B"	May 1, 1975	120,000	\$5.50	75,100	
"C"	Apr. 1, 1976	120,000	\$5.50	95,000	365,975

(b) For options granted to employees to purchase fully-paid and non-assessable common shares (in Canadian currency):

At \$3.25 per share	43,540
	<u>409,515</u>

7. EARNINGS PER SHARE

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the fiscal year.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Aggregate direct remuneration paid or payable by the Company and its subsidiaries for the year to directors and senior officers of the parent company was \$137,221.

Commodore Business Machines (Canada) Limited

Auditors' Report

To the Shareholders of Commodore Business Machines (Canada) Limited:

We have examined the consolidated balance sheet of COMMODORE BUSINESS MACHINES (CANADA) LIMITED (an Ontario corporation) AND ITS WHOLLY-OWNED SUBSIDIARIES as of June 30, 1971, and the related consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Commodore Business Machines (Canada) Limited and its wholly-owned subsidiaries as of June 30, 1971, and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Toronto, Ontario
November 2, 1971





Commodore Business Machines (Canada) Limited

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